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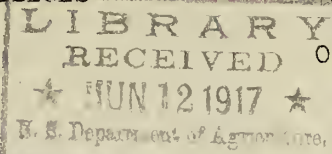
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EX89
April 16, 1917.

Form No. 1051.

COOPERATIVE EXTENSION WORK IN AGRICULTURE AND HOME ECONOMICS.

U. S. DEPARTMENT OF AGRICULTURE
and STATE AGRICULTURAL COLLEGES
Cooperating.

STATES RELATIONS SERVICE,
Office of Extension Work, South.
OFFICE OF THE SECRETARY,
Office of Farm Management.
Washington, D. C.



MEMORANDUM FOR USE IN LOCAL PERIODICALS OF THE EXTENSION SERVICE IN
THE SOUTHERN STATES.

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NET INCOME OF THE FARM BUSINESS AND THE FARMER'S EARNINGS.

The farmer who owns all or a part of the land he farms has a certain amount of money invested in land, buildings, fences, etc. He is a farmer and investor in real estate and his money so invested we call "fixed capital".

The tenant farmer or renter who rents the land he farms is a farmer pure and simple. He has no money invested in real estate and, therefore, has no "fixed capital".

Both the farmer who owns all or a part of the farm he operates and the tenant farmer have money invested in such working equipment as tools, implements and machinery, feed and farm supplies, work stock, productive stock such as cattle, hogs, sheep and poultry, and more or less cash to pay current or daily expenses. Money invested in working equipment we may call "working capital".

Now in the operation of his farm the farmer, whether owner or renter, uses the labor of men and animals, feed and supplies, cash, and his own time in labor and management.

In return he harvests more or less of crops and crop products, livestock increase and livestock products. These are sold or used on the farm by the family or in carrying on the farm business.

If we subtract the sum of the expenses plus any decrease in inventories from the receipts plus any increase in inventories, the remainder will be a figure we call the NET INCOME of the farm business.

The NET INCOME on the farm of an owner operator represents three items of earnings:

1. INTEREST OR EARNINGS ON HIS WORKING CAPITAL at the prevailing short loan rate for the community.
2. NET RENT for the use of the farm operated, net rent being a figure representing what the farm would rent for, less such expenses as landlords pay out of rent. These expenses are charged against the farm in current expenses.
3. THE FARMER'S EARNINGS for his labor and managerial ability.

To find the farmer's earnings of the owner farmer we subtract net rent and interest on the working capital from the net income.

The following is the summary of a year's business on an owner farm and shows how the net income and farmer's earnings are determined.

OWNER

FARM 52

Fixed Capital in Real Estate	120 Acres	\$4000.
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WORKING CAPITAL

Livestock	\$ 868.	
Implements & Machinery,	193.	
Feed and Supplies	568.	
Cash,	<u>20.</u>	
Total Working Capital,		\$1649.

FARM RECEIPTS

Crop Sales,	2260.	
Livestock Sales,	174.	
Livestock Product Sales	164.	
Miscellaneous Receipts	10.	
Increase in inventory value of buildings,	0	
Increase in inventory value of livestock,	0	
Increase in inventory value of machinery,	0	
Increase in inventory value of food and supplies,	527.	
House rent, farm products, and farm fuel used in the home	<u>288.</u>	
Total receipts		3423.

FARM EXPENSES

Hired labor expense (including cropper),	823.	
Family labor expense,	50.	
Livestock expenses,	18.	
Miscellaneous crop expenses,	352.	
Improvements, machinery and repairs,	55.	
General expenses, taxes, interest, etc.	30.	
Decrease in inventory value of buildings,	34.	
Decrease in inventory value of livestock,	127.	
Decrease in inventory value of machinery,	64.	
Decrease in inventory value of feed and supplies,	<u>0</u>	
Total expenses		<u>1553.</u>

NET INCOME

Interest on working capital @ 10%	165.	1870.
Net rent on farm,	<u>216.</u>	
Total interest and net rent		<u>381.</u>

THE FARMER'S EARNINGS

\$ 1489.

The net income on a tenant farm is divided between tenant and landlord, the tenant's part of it representing two items of earnings, namely, interest on working capital and farmer's earnings, and the landlord's part representing net rent.

To find a tenant's labor and managerial earnings we subtract interest on his working capital from his part of the net income.

The landlord has no labor and managerial earnings.

The following summary of a year's business on a tenant farm shows how the net income is divided between the landlord and tenant and shows how the tenant's labor and managerial earnings are found.

TENANT FARM 113			
		Tenant	Landlord
Fixed capital in Real Estate 240 acres			3000.
WORKING CAPITAL			
Livestock	855.		
Implements & Machinery	383.		
Feed and Supplies	813.		
Cash	40.		
Total Working Capital	2091.		
FARM RECEIPTS			
Crop Sales	1174.		
Livestock Sales	95.		
Livestock Product Sales	236.		
Miscellaneous Receipts	10.		250
Increase in inventory value of buildings	0		0
Increase in inventory value of livestock	0		0
Increase in inventory value of machinery	0		
Increase in inventory value of feed and supplies	75.		
House rent, farm products and farm fuel used in the home	784.		
Total Receipts	2374.		250

FARM EXPENSES

Hired labor expense (including cropper)	262.	
Family labor expense	50.	
Livestock expenses	11.	
Miscellaneous crop expenses	244.	
Improvement, Machinery and Repairs	15.	25.
General expenses, taxes, interest, etc.	250.	15.
Decrease in inventory value of buildings,		72.
Decrease in inventory value of livestock,	86.	
Decrease in inventory value of machinery,	37.	
Decrease in inventory value of feed and supplies,	0.	
Total expenses	955.	112.
NET INCOME	1419.	138
Interest on working capital 10%	209.	
Net rent of farm		138
THE FARMER'S EARNINGS	1210.	0

Net income being the sum of the farmer's earnings, net rent, and interest on the working capital, represents the total year's income from the business available for family use, paying debts, or enlarging the business.

Farmer's earnings determined as above is a good measure of the skill or efficiency of the farmer in organizing and managing his farm, and may be used as a measure in comparing the efficiency of organization, practice, and management of farms of approximately the same size and type, whether they be owned farms or tenant farms.

Net income also may be used as a measure of efficiency in comparing owner farms with owner farms or tenant farms with tenant farms. If we wish to use this measure for comparing owner farms with tenant farms, we must add together the net income of both tenant and landlord to get the total earnings of the management of the tenant farms.

In using net income for measuring efficiency of organization and practice on tenant farms, we must use the total net income of tenant and landlord in order to have the entire earnings of these factors.

These summaries for owner and tenant farms include under "FARM RECEIPTS" what the farm furnishes toward the family living, an item which has been omitted from the summary of the farm business in previous farm management work. For this reason, and to avoid confusion of meaning, the terms "NET INCOME" and "FARMER'S EARNINGS" have been used in place of the older terms "Farm Income" and "Labor Income", which do not include what the farm furnishes toward the family living.

O. L. Goodrich

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